

1812



1925

**Economic Conditions  
Governmental Finance  
United States Securities**

New York, January, 1925

**Capital Increase, National City Bank**

**T**HE Board of Directors of this Bank has taken the preliminary steps to submit to the stockholders at the annual meeting on January 13, 1925, a proposal to increase the capital of the Bank and of the National City Company, by an issue of 100,000 additional shares of Bank stock, to be offered to stockholders of record January 10, 1925, at \$200 per share, each stockholder to have the privilege of subscribing for one new share for each four shares already owned.

Of the \$20,000,000 of new capital thus obtainable \$10,000,000 will cover the par value of the new stock, raising the capital stock to \$50,000,000; \$5,000,000 will be added to the surplus fund, raising it to \$50,000,000, and the remaining \$5,000,000 will be applied to increasing the capital stock of the National City Company from \$10,000,000 to \$12,500,000, and its surplus from \$10,000,000 to \$12,500,000. The capital stock of the National City Company is all held by Trustees for the benefit of the shareholders of the National City Bank, and the newly issued Bank shares, like the outstanding ones, will carry the endorsement evidencing the owner's proportionate beneficial interest in the National City Company.

This step is in pursuance of the policy of the Bank in the past in keeping the capital proportionate to the volume of business handled and adequate to meet prospective demands.

**Growth of the Bank**

The original capital of the City Bank, in 1812, was \$800,000, which was large capital for those times, and it was not until 1853 that it was raised to \$1,000,000. In February, 1900, it was raised to \$10,000,000, and on the day following, the accounts showed capital \$10,000,000, surplus \$1,000,000, undivided profits \$4,000,000, deposits \$137,441,208, total resources \$165,255,212. Less than two years later, in July, 1902, the directors with a vision of the period of business expansion then developing, raised the capital to \$25,000,000, at the same time paying \$7,500,000 of new money into surplus. The foregoing en-

tries then stood as follows: capital \$25,000,000, surplus \$8,900,000, undivided profits \$6,016,471, deposits \$139,841,858, total resources \$190,452,753. On October 5, 1920, the capital was increased to \$40,000,000, and \$3,750,000 paid into surplus, the corresponding figures then being, capital \$40,000,000, surplus \$45,000,000, undivided profits \$19,489,167, deposits \$563,757,399, total resources \$864,334,376.

The latest statement of the Bank at this time, shows capital \$40,000,000, surplus \$45,000,000, undivided profits \$9,824,219.74, reserve for contingencies \$5,541,580.27, deposits \$830,119,577.52, total resources \$1,034,786,123.72.

Consolidations have been a comparatively small factor in the growth of the Bank. In 1922 the Second National Bank was absorbed with \$1,000,000 capital and \$21,809,532 of deposits and in the same year the Commercial Exchange National was taken over, with \$700,000 capital and \$8,730,000 of deposits.

The Bank has become far more than a Wall Street institution. At this writing The National City Bank of New York and the International Banking corporation, which is owned by the Bank, have branches in twenty-two foreign countries.

**Distribution of Ownership**

As a result of the policy of distribution pursued in connection with recent capital increases, the number of shareholders has been increased to approximately 8,000. There are shareholders of the Bank in every state of the Union and in most of the foreign countries.

The coming issue of stock will largely increase the number of shareholders through a proposed distribution to employees. Through the co-operation of certain large shareholders who will sell their subscription rights substantially below their market value for this purpose, and the action of the Board of Directors in voting a contribution of bank funds, it is proposed to give every employee of the Bank and its affiliated corporations an opportunity to subscribe for a fixed number of shares at \$275 per share, although the market value of the stock is approximately \$450 per share,

Those desiring this Letter sent them regularly will receive it without charge upon application

and to pay for the same in monthly installments without interest.

In accordance with a schedule based upon salaries as of January 1, 1925, those of the staff receiving an annual salary up to \$2,000 shall have the right to subscribe for one share; those receiving annual salaries in excess thereof and up to \$3,000 shall have the right to subscribe for two shares; those receiving up to \$4,000, three shares; up to \$5,000, four shares; up to \$5,999, five shares, and in excess thereof, six shares. All classed by Head Office as junior officers, irrespective of salaries, shall have the right to subscribe for ten shares.

This offer extends to members of the staff attached to foreign offices, the same as to those in this country. The total number eligible is approximately 8,000. The subscribers will be entitled to receive their stock from the Trustees free and clear when savings deducted from salaries, in accordance with the schedule, shall equal \$275.00 per share, which will be at the expiration of two years in the case of all subscribers receiving salaries in excess of \$2,000 per year, and four years in the case of subscribers receiving salaries thereunder. Subscribers who may die or whose employment may otherwise be terminated before they have become entitled to receive their stock, shall be entitled to the return of all sums deducted from their salaries, with interest thereon at 6% per annum.

### The Outlook for 1925

The year 1925 opens to more hopeful conditions the world over than has been the case with any other year since the great war disturbed the equilibrium of trade and industry everywhere. Improvement had been going on in previous years, but the political and social controversies in Europe have been so complex and menacing that they seemed to dominate the situation and prevent the full restoration of confidence. These conditions have improved decidedly in the past year. Social order is more firmly established in Europe. The fever for political agitation and experiment has died away, and the antagonisms arising from the war have been in some degree subdued by the desire for peace and the reestablishment of industry.

#### **Importance of the Reparations Settlement**

The reparations settlement has been the most influential factor in this process of improvement. The volume of trade between Europe and other countries in recent years has been much below that of pre-war years because of the derangement of industry and its effect upon the purchasing power of the European populations and in turn upon the prices of raw materials and foodstuffs which Europe has

been accustomed to import. The low prices of such products in this country have illustrated the situation elsewhere.

The British government recently created a special committee to inquire into the state of British trade, and at a hearing last month a delegation from Manchester presented the facts as to the cotton goods industry. The London Times gives a summary of the testimony, from which the following is taken:

Emphasis was placed in the evidence on the importance of the cotton trade to this country, particularly in regard to exports. The export of cotton goods constituted some 25 per cent of the whole exports from this country. The decrease in present exports as compared with pre-war exports, put simply, meant that this country was only sending four yards of cotton cloth today where we sent seven yards in 1913, and 2lb. of cotton yarn where we formerly sent 3lb.

The witnesses attributed the decline in the cotton export trade more to the combined effects of high prices for British goods and the reduced purchasing power of overseas customers than to any other factor. They pointed out how price levels had been so disturbed by the upheaval of the war, that the agricultural populations in our foreign markets were unable to exchange the products of their labor for the same quantity of manufactured goods as formerly. The low level of prices of the articles exported by certain overseas countries resulted in the purchasing power of these markets being seriously diminished. Whereas the average price per unit of cotton goods exported from this country had increased since 1913 by 142 per cent, the average price of cereals exported by India had only increased by 34 per cent. Similar comparisons were made regarding the exports of other consuming countries. These considerations led the witnesses to emphasize the importance of any steps which might lead to a reduction of Lancashire's prices, and to a foreign policy which would foster economic rehabilitation throughout the world.

The beneficial effects of the reparations settlement already have been felt. Exports of two leading raw materials, copper and cotton, from the United States in the last five months have been far ahead of those for corresponding months in any other year since the war, and the increase to Germany has been the principal factor in the gain. Moreover, the benefits of better conditions do not appear only in direct trade with Germany. The Manchester Guardian Commercial commenting upon shipments of cotton goods to Central America expresses the opinion that large purchases of coffee by Germany in recent months have contributed to increased sales of Lancashire products in those countries and in Brazil.

#### **Unity of the World Organization**

Mr. Owen D. Young, Chairman of the Board of the General Electric Company, was honored last month with a testimonial dinner in New York, given in recognition of his services as a member of the Dawes Committee. Speaking of the interest of the United States in the prosperity of other countries, he said: "We may debate political participation in the affairs of the world as we will, but we must participate in its business, and business like science

knows no political boundaries and in its dictionary there is no such word as isolation."

The economic organization of the world is interdependent, and no part can function properly unless all the parts are in order and right relations are maintained between them. It may seem advantageous to the producers of manufactures to have the exchange value of their products raised in relation to agricultural products, but when it appears that the farmers must take less of manufactures in consequence, and that employment in the factories must be reduced, the advantage is seen to be largely fictitious.

The world is passing out of such a situation, and this is the chief reason for confidence that it is entering upon better times. Prosperity is a state of balanced industry, with production and prices so well adjusted that the exchanges are readily made. This situation is more nearly approached today than at any time since the great disturbance occurred.

In short, with normal trade relations between Europe and the rest of the world in the way of being restored, the equilibrium between manufacturers and agriculture practically restored, with credit conditions favorable to industrial expansion, and confidence generally re-established, the situation is poised and ready for the development of all-round industrial activity. This country has passed through liquidation and a deflation of prices. Some degree of recovery from the low point has been made, but it cannot be said that any course of inflation has been run since 1921, or that inflation exists here in comparison with prices or conditions in other countries.

#### Some Present Apprehensions

The apprehensions of those who incline to pessimism do not impress us under existing conditions. It is said, for one thing, that the profits of industry are unduly small. It is true that profits have been low in the past year, but profits fluctuate with the state of trade. Profits arise from the relations between demand and supply and the differences in costs between competitors. When trade slackens, profits tend to disappear for the marginal producers, competition narrowing down to those operating on lower cost levels; on the other hand, when trade expands and the production of the high-cost concerns is required, prices rise to a level at which they can operate and the profits of others increase. The fact that profits are small is no sign that they are not going to be larger.

It is said that the present prosperity in agriculture is due to exceptional conditions, and that next year agriculture may be back in the slough of despond. Possibly, but the two greatest periods of prosperity this country ever has known, beginning in 1879 and 1898, were

inaugurated with similar conditions in agriculture, to-wit: large crops at home and short crops abroad. Moreover, it is apparent from the prices now prevailing that the crops of 1923, although exceptionally large, sold too low. The agricultural situation is discussed elsewhere and we will not repeat our comments here.

It is said that we are likely to have sharp competition from Europe, underselling us in many markets, possibly including our own. We have pointed out that increased production in Europe will mean increased buying power, and that in our opinion this country will gain more than it will lose by that change. If our producers of foodstuffs and raw materials are benefited by better conditions in Europe, the reaction upon other lines of home industry will more than offset the competition these lines will feel from Europe. It should not be forgotten that we had the competition of Europe before the war, including Germany in the full tide of her industrial power. Even the Germans and Belgians cannot work any more than all the time, and in fact are working less hours per day now than before the war. It must not be thought that foreign industries have unlimited powers of production.

It is said that our productive capacity in many industries is far beyond our capacity to consume, compelling us to export and thus making us subject to foreign competition. This always has been the case in some industries, but there is no other important industrial country so little dependent upon foreign markets as the United States. Moreover, we doubt if the leading industries of the United States are found to be overdeveloped when a period of general prosperity comes. Every such period in the past has found us under the necessity of expanding all our industries. As for the iron and steel industry, its capacity has been materially increased since the war, and is now running at about 80 per cent of capacity. Our problem in a period of general prosperity will be to find the labor to operate the industries at capacity.

#### Will There Be No More Work to Do?

It is pointed out that we have done a great amount of house-building, the railroads have been buying heavily of equipment for several years, and that the saturation point in automobiles must be about reached: where then is the demand coming from to keep our industries employed? One skeptic asks if we can live by doing each other's washing!

The last question suggests the answer to all the others. If by doing each other's washing is meant working for each other, that is precisely what modern industry consists of, and there are absolutely no limits upon it. The whole problem is in so directing the

growth and expansion of industry that goods and services will be offered in right proportions to each other. That difficulty never will be completely overcome in a state of free industry, but it is one of the things to think about when business is booming, with danger of unbalanced development, and we need not worry about it at the moment. Prosperity always has its perils; nevertheless, we welcome prosperity.

As for the danger of getting all the work done up, so that there will be no more to do, the Delaware & Hudson Company last month entertained a distinguished company of guests to show a newly-completed locomotive, said to possess about double the efficiency of any locomotive previously built. If this is true, it would appear that the buying of that class of railroad equipment is about to begin all over again, and something like that is occurring all the time all over the industrial field. The improvements in industry are constantly making it over, and never so rapidly as now. As for houses, a little falling off in the demand for new ones might lower costs, with benefits so important as to fully compensate for a temporary slackening of activity in that quarter. The automobile industry has passed a great many imaginary saturation points, and even if a real one has been reached we are not prepared to believe that this is ominous of industrial depression. There are not a few people who think it would have been better for other industries if the saturation point for automobiles had been reached lower down, but that is an abstract question which we have never thought it worth while to discuss.

To sum up, at the beginning of 1925 conditions are favorable to general and enduring prosperity, subject to the temporary fluctuations that may result from unbalanced development. While there is nothing in the immediate situation to give a great start to trade, the way is clear, and when this is the case business naturally goes forward with growing momentum. What is wanted is not a sudden rise of prices, or a spasmodic congestion of orders, but that steady interchange of goods and services which means that production and consumption are in healthy, normal relations. As Secretary Mellon says in his recent report to the Congress, "It is only through hard work, economy and sound policies that we have a right to expect true progress."

#### Public Capital Issues in 1924

Capital issues in this market in the year 1924 surpassed in volume those of any previous year, if war loans are excepted. In referring to "this market" we include the entire United States, for although it is usual for the issues to be offered from New York they are sold

throughout the country. Foreign government loans were the chief feature of the year, but domestic issues exceeded those for any previous year.

The bond market was rising at the close of 1923 and made further advances in 1924, but declined slightly in the later months. The New York Times' list of 40 bonds had an average of 76.95 on January 2, 1924, which was the low of the year, while the high was 82.46 on December 4, and December 29 showed a decline to 81.72. The rise of prices signifies a corresponding decline of yield, or in other words, that the trend of the year was to greater supplies of capital and lower interest rates. The high of these bonds in 1924, however, did not quite equal that of 1922, when they touched 82.54 on August 24, the crest of the bond market following the period of business depression. It is common experience that bonds tend to rise in periods of dull business and decline with business activity, but as the war conditions become more remote the fluctuations may be expected to be less pronounced.

The Times' list of 50 stocks, 25 railroads and 25 industrials, touched its low average for the year on April 22, at 82.26, and its high average on December 19, at 106.43. The average of these stocks on November 3, the day before election was 94.76.

#### Domestic Flotations

The Commercial and Financial Chronicle reports flotations for domestic corporations for eleven months of 1924, as follows, which already shows a total for 1924 of \$5,144,159,458 of new capital against \$4,303,394,319 in the entire year in 1923.

| SUMMARY OF FINANCING                  |                 |               |                 |
|---------------------------------------|-----------------|---------------|-----------------|
| Eleven Months Ended November 30, 1924 |                 |               |                 |
|                                       | New Capital     | Refunding     | Total           |
| Railroad .....                        | \$764,727,069   | \$160,679,900 | \$925,406,969   |
| Public Utilities .....                | 1,207,970,127   | 188,762,300   | 1,396,732,427   |
| Industrials:                          |                 |               |                 |
| Iron, Steel, Coal, Copper, etc. ....  | 131,871,160     | 30,798,000    | 162,669,160     |
| Equipment .....                       |                 |               |                 |
| Mfrs. ....                            | 18,222,100      |               | 18,222,100      |
| Motors and Accessories... ..          | 22,341,760      | 8,515,000     | 30,856,760      |
| Other Industrial & Mfg. ....          | 223,315,502     | 32,458,900    | 255,774,402     |
| Oil .....                             | 167,127,468     | 20,398,500    | 187,525,968     |
| Land, Buildings, etc. ....            | 286,744,357     | 1,100,000     | 287,844,357     |
| Rubber .....                          | 2,000,000       |               | 2,000,000       |
| Shipping .....                        | 3,800,000       |               | 3,800,000       |
| Municipal .....                       | 1,262,467,100   | 14,124,406    | 1,276,591,506   |
| Canadian brought out in U. S. ....    | 128,864,765     | 16,650,000    | 145,514,765     |
| U.S. Terr. & Possessions... ..        | 7,730,000       |               | 7,730,000       |
| Foreign Govt... ..                    | 559,945,555     | 177,059,445   | 737,005,000     |
| Farm Loan .....                       |                 |               |                 |
| Issues .....                          | 176,850,000     |               | 176,850,000     |
| Miscellaneous... ..                   | 180,182,495     | 14,386,000    | 194,568,495     |
|                                       | \$5,144,159,458 | \$664,932,451 | \$5,809,091,909 |

## Foreign Loans

Much public interest has developed in the foreign flotations in this market, and some apprehension has been manifested that Europe might be borrowing more than it would be able to pay, in view of the existing indebtedness to the Government of the United States. It will be seen that although the net total of foreign borrowings is above \$944,000,000, the new loans to Europe were about \$520,000,000.

Loans to Canada exceed \$270,000,000, and to South America aggregate \$191,310,000. Of the latter, however, nearly \$80,000,000 went to United States corporations operating in South America.

The list is as follows:

## FOREIGN LOANS FOR THE YEAR 1924

January 1 to December 29 inclusive.

| EUROPE                                     | Principal Amount | Subdivision Total | Grand Total   |
|--|------------------|-------------------|---------------|
| German Govt. Ext. Loan.....                | \$110,000,000    |                   |               |
| Govt. French Republic.....                 | 100,000,000      |                   |               |
| Paris-Lyons-Med. R.R. ....                 | 20,000,000       |                   |               |
| French Nat. Mail S.S. ....                 | 10,000,000       |                   |               |
| Paris-Orleans R.R. ....                    | 10,000,000       |                   |               |
| Union Elect. Paris.....                    | 4,000,000        |                   |               |
| Kingdom of Netherlands.....                | 40,000,000       |                   |               |
| City of Rotterdam.....                     | 6,000,000        |                   |               |
| Rep. of Switzerland.....                   | 30,000,000       |                   |               |
| Kingdom of Belgium.....                    | 50,000,000       |                   |               |
| Kingdom of Belgium(ref.).....              | 30,000,000       |                   |               |
| Solvay & Co. (ref.).....                   | 10,000,000       |                   |               |
| Kingdom of Norway.....                     | 25,000,000       |                   |               |
| City of Trondhjem.....                     | 2,500,000        |                   |               |
| City of Bergen.....                        | 2,000,000        |                   |               |
| City of Christiania.....                   | 2,000,000        |                   |               |
| Christiania Tram. Corp.....                | 1,400,000        |                   |               |
| Czecho-Slovak Republic.....                | 9,250,000        |                   |               |
| City of Carlsbad.....                      | 1,500,000        |                   |               |
| Ind. Mtge. Bank, Finland (Govt. Gty.)..... | 12,000,000       |                   |               |
| Finnish Ctd. Mun. Loan (Govt. Gty.).....   | 7,000,000        |                   |               |
| Swedish Govt.....                          | 30,000,000       |                   |               |
| Greek Govt.....                            | 11,000,000       |                   |               |
| Kingdom of Hungary.....                    | 9,000,000        |                   |               |
| Lower Austrian H. Elec. Power.....         | 3,000,000        |                   |               |
| Nord Railway.....                          | 15,000,000       |                   |               |
| Krupp Works.....                           | 10,000,000       |                   |               |
|  |                  |                   | \$560,650,000 |
| ASIA                                       |                  |                   |               |
| Japanese Govt. (Partly Ref.).....          | \$150,000,000    |                   |               |
| Ind. Bank Japan, Ltd. (Govt. Gty.).....    | 22,000,000       |                   |               |
| Great Cons. Elec. (Daido).....             | 15,000,000       |                   |               |
| Manila Elec. Co.....                       | 500,000          |                   |               |
|  |                  |                   | 187,500,000   |
| SOUTH AMERICA                              |                  |                   |               |
| Govt. Arg. Nation (Ref.).....              | \$40,000,000     |                   |               |
| Govt. Arg. Nation.....                     | 10,000,000       |                   |               |
| Govt. Arg. Nation.....                     | 30,000,000       |                   |               |
| City of Buenos Aires.....                  | 8,490,000        |                   |               |
| Republic of Peru.....                      | 7,000,000        |                   |               |
| Cuba Nor. R.R.....                         | 6,180,000        |                   |               |
| Comp. Azuc. Antilla.....                   | 6,000,000        |                   |               |
| Andes Copper Mining Co.....                | 40,000,000       |                   |               |
| Venezuelan Pet. Co. (Stock).....           | 1,875,000        |                   |               |
| Internatl. R.R., C. A.....                 | 1,000,000        |                   |               |
| Ferrer Sugar Co.....                       | 1,500,000        |                   |               |
| Cespedes Sugar Co.....                     | 3,000,000        |                   |               |
| Cub. Dominican Sugar Co.....               | 15,000,000       |                   |               |
| Sugar Estates Oriente (Stock).....         | 2,000,000        |                   |               |
| City of Bogota.....                        | 6,000,000        |                   |               |
| City of Medellin.....                      | 3,000,000        |                   |               |
| Republic of Bolivia.....                   | 5,765,000        |                   |               |

|  | Principal Amount | Subdivision Total | Grand Total   |
|--|------------------|-------------------|---------------|
| Prov. Buenos Aires.....                  | 2,000,000        |                   |               |
| Dominican Republic.....                  | 2,500,000        |                   |               |
|  |                  | 191,310,000       |               |
| CANADIAN                                 |                  |                   |               |
| Dominion (Ref.).....                     | \$90,000,000     |                   |               |
| Provincial.....                          |                  | 90,000,000        |               |
| Ontario.....                             | 20,000,000       |                   |               |
| Saskatchewan.....                        | 3,041,000        |                   |               |
| Manitoba.....                            | 2,600,000        |                   |               |
| Nova Scotia.....                         | 3,500,000        |                   |               |
| New Brunswick.....                       | 1,961,000        |                   |               |
| British Columbia.....                    | 10,150,000       |                   |               |
| Alberta.....                             | 2,500,000        |                   |               |
|  |                  | 43,752,000        |               |
| Municipal.....                           |                  |                   |               |
| Montreal Ref. & Impr.....                | \$9,700,000      |                   |               |
| Toronto.....                             | 3,000,000        |                   |               |
| Gr. Winnipeg Water Dis.....              | 3,040,000        |                   |               |
| City of Winnipeg.....                    | 2,000,000        |                   |               |
| Ottawa.....                              | 1,816,000        |                   |               |
| Calgary.....                             | 1,776,000        |                   |               |
| Ottawa.....                              | 2,469,000        |                   |               |
|  |                  | 23,801,000        |               |
| Railway.....                             |                  |                   |               |
| Canadian National.....                   | \$55,375,000     |                   |               |
| Canadian Pacific.....                    | 10,000,000       |                   |               |
|  |                  | 65,375,000        |               |
| Public Utility.....                      |                  |                   |               |
| Montreal Tram. & Pow.....                | \$11,266,000     |                   |               |
| Duke-Price Power Co.....                 | 12,000,000       |                   |               |
| Winnipeg Elec. Co.....                   | 6,000,000        |                   |               |
| Shawinigan Water & Power Co.....         | 2,300,000        |                   |               |
| United Secur., Ltd.....                  | 2,500,000        |                   |               |
|  |                  | 34,066,000        |               |
| Industrial.....                          |                  |                   |               |
| St. Regis Paper Co.....                  | \$1,500,000      |                   |               |
| Howard Smith Paper Mills, Ltd.....       | 1,471,200        |                   |               |
| St. Maurice Paper Co.....                | 2,600,000        |                   |               |
| Pacific Mills, Ltd.....                  | 1,875,000        |                   |               |
| Cosmos Imp. Mills, Ltd.....              | 1,000,000        |                   |               |
| King Edward Hotel.....                   | 1,000,000        |                   |               |
| Adm. Beatty Hotel Co.....                | 600,000          |                   |               |
|  |                  | 10,046,200        |               |
| Total Canadian.....                      |                  | \$267,040,200     |               |
| Govt. Newfoundland.....                  | \$3,500,000      |                   |               |
|  |                  | 3,500,000         |               |
| Total Canadian (incl. Newfoundland)..... |                  | \$270,540,200     |               |
|  |                  | \$1,210,000,200   |               |
| REFUNDING                                |                  |                   |               |
| Kingdom of Belgium.....                  | \$30,000,000     |                   |               |
| Solvay & Co.....                         | 10,000,000       |                   |               |
| Japanese Govt.....                       | *65,988,500      |                   |               |
| Govt. Arg. Nation.....                   | 40,000,000       |                   |               |
| Govt. Arg. Nation.....                   | 30,000,000       |                   |               |
| Dominion Canada.....                     | 90,000,000       |                   |               |
| LESS TOTAL REFUNDING.....                |                  |                   | 265,988,500   |
| TOTAL NET FINANCING.....                 |                  |                   | \$944,011,700 |

\* As estimated by Office of Japanese Financial Commission, New York.

NOTE:—All items of foreign financing running for less than one year have been omitted from the above list.

These loans in the main are for productive purposes, and in the opinion of the borrowers will produce benefits decidedly in excess of the costs entailed. This is especially true of the large European loans. The German loan will enable the central bank of Germany to extend much more than that amount of credit accommodation to the industries of the country, beside the great service of stabilizing the currency. The French government loan is for stabilizing the currency, and the French

railway loans are for electrification by the use of water power. Since these loans do not have the effect of increasing the burdens to be borne by the respective countries, but rather of aiding them to meet existing obligations, it is improbable that the United States Government will ever take the position of insisting upon a preference in favor of its claims, or press its claims to the disadvantage of loans in this market by countries indebted to the United States government, particularly where such loans have been made with the approval of the United States government. Any move of that kind at Washington of course would be disastrous to the credit of the governments indebted to the United States.

#### The International Balance Sheet

In connection with the above figures it is interesting to examine the following table made up some time since by the Department of Commerce as a balance sheet of our international relations for the year 1923. The Department has arranged the entries to show our charges against foreign countries on account of the goods and services rendered to them, and their charges against us on account of goods and services sold by them to us. It should be understood that these figures do not represent actual transactions but sales or accruals. It will be seen that foreign countries were owing to us in the aggregate \$152,000,000 in excess of their charges against us, and that for the year 1923, foreign investments in this country nearly offset our investments abroad.

| Items  | 1923<br>We Sold | Millions<br>of Dollars |
|--|-----------------|------------------------|
| Merchandise .....  |                 | 4,208                  |
| Silver .....   |                 | 72                     |
| Gold .....   |                 | 29                     |
| United States Currency.....  |                 | 50                     |
| Services:  |                 |                        |
| Use of our capital .....   |                 | 567                    |
| Use of our ships.....  |                 | 65                     |
| Services to foreign tourists .....   |                 | 100                    |
| Investment of capital (stocks, bonds, etc.)....  |                 | 394                    |
| Receipts by U. S. Govt. (from foreign nations in payment of their debts).....                    |                 | 91                     |
| Total exports, visible and invisible.....  |                 | 5,576                  |
| Items  | We Bought       |                        |
| Merchandise .....  |                 | 3,819                  |
| Silver .....   |                 | 74                     |
| Gold .....   |                 | 323                    |
| Services:  |                 |                        |
| Use of foreign capital .....   |                 | 150                    |
| Use of foreign ships .....   |                 | 73                     |
| Services to American tourists .....  |                 | 500                    |
| Investment of capital (stocks, bonds, etc.)....  |                 | 410                    |
| Expenditures abroad by U. S. Govt.....   |                 | 19                     |
| Amounts remitted to friends and relatives abroad or for charitable and missionary purposes ..... |                 | 360                    |
| Total imports, visible and invisible.....  |                 | 5,728                  |
| Excess of imports.....   |                 | 152                    |

#### Comparative Quotations

The following table gives a comparison of foreign bond prices on the New York Stock

Exchange between December 27, 1924, and one year ago:

|   | Dec. 27 1923 | Dec. 27 1924 |
|---|--------------|--------------|
| Argentina 5s, 1945.....   | 83%          | 83½          |
| Chinese Railway 5s, 1951.....                                     | 40½          | 41½          |
| City of Bordeaux 6s, 1934.....                                    | 74%          | 84½          |
| City of Greater Prague 7½s, 1952.....                             | 76½          | 90%          |
| City of Lyons 6s, 1934.....                                       | 74½          | 85           |
| City of Marseilles 6s, 1934.....                                  | 75½          | 84½          |
| City of Montevideo S. F. 7s, 1952.....                            | 85%          | 88½          |
| City of Solissans 6s, 1936.....                                   | 73           | 84           |
| Czecho-Slovak Republic 8s, 1951.....                              | 94½          | 99%          |
| Department of the Seine Temp. 7s, 1942                            | 90½          | 89%          |
| Dominican Republic 5½s, 1942 Int. ctfs.                           | 86           | 92           |
| Dominion of Canada 5s, 1926.....                                  | 99%          | 100½         |
| Dominion of Canada 5s, 1931.....                                  | 99%          | 101½         |
| Dominion of Canada Temp. 5s, 1952.....                            | 99½          | 102%         |
| Dutch East Indies 6s, 1947.....                                   | 94%          | 99           |
| Dutch East Indies 6s, 1962.....                                   | 94½          | 99           |
| Fraserian Industrial Devel. Temp. Deb. 7½s, 1942 .....            | 86½          | 93           |
| French Government 7½s, 1941.....                                  | 92½          | 99%          |
| French Government 8s, 1945.....                                   | 94%          | 103%         |
| Jurgens (Ant.) Un Mar Works 6s, 1947                              | 78½          | 90½          |
| Kingdom of Belgium 6s, 1925.....                                  | 97           | 100          |
| Kingdom of Belgium 7½s, 1945.....                                 | 97%          | 108%         |
| Kingdom of Denmark 6s, 1942.....                                  | 93%          | 100½         |
| Kingdom of Denmark 8s, 1945.....                                  | 108½         | 110          |
| Kingdom of Netherlands S. F. 6s, 1972..                           | 94%          | 103%         |
| Kingdom of Norway S. F. 6s, 1943.....                             | 93           | 98½          |
| Kingdom of Norway S. F. 6s, 1952.....                             | 93           | 97%          |
| Kingdom of Serbs, Croats, Slovenes 8s, 1962 .....                 | 64½          | 86½          |
| Kingdom of Sweden 6s, 1939.....                                   | 104½         | 104½         |
| Paris-Lyons-Mediterranean 6s, 1958.....                           | 68           | 78½          |
| Republic of Bolivia S. F. 8s, 1947.....                           | 86½          | 92%          |
| Republic of Chile S. F. 7s, 1942.....                             | 95           | 99           |
| Republic of Cuba S. F. 5½s, 1953.....                             | 91½          | 96%          |
| Republic of Haiti S. F. Series A, 1952.....                       | 87½          | 92           |
| Republic of Panama Exter. Sec. S. F. 5½s, 1953 .....              | 96½          | 100½         |
| Republic of Uruguay S. F. 8s, 1946.....                           | 103          | 106½         |
| State of Sao Paulo S. F. 8s, 1936.....                            | 98½          | 101          |
| United Kingdom of Great Britain & Ire-<br>and Con. 5½s, 1929..... | 108½         | 115½         |
| U. S. of Brazil 8s, 1941.....                                     | 94%          | 97           |
| Central Railways of Brazil Elec. 7s, 1952                         | 79           | 82½          |

#### Yearly Range 10 Foreign Bonds

|            | High        | Low         |
|------------|-------------|-------------|
| *1924..... | 102.74 Aug. | 96.99 March |
| 1923.....  | 101.14 June | 96.92 Jan.  |
| 1922.....  | 103.10 Apr. | 97.40 Nov.  |

\*Eleven months.

The following table gives month by month from January, 1923, through November, 1924, the average of the high and low prices of the ten foreign bonds used by the New York Times Annalist in computing the swings in foreign bond prices. The average for the year 1923 and for the first eleven months of 1924 is found at the bottom of the table:

|            | 1923   |        |                | 1924   |        |         |
|------------|--------|--------|----------------|--------|--------|---------|
|            | High   | Low    | Average        | High   | Low    | Average |
| January    | 100.11 | 96.92  | 98.52          | 99.15  | 96.99  | 98.07   |
| February   | 99.58  | 97.55  | 98.56          | 99.32  | 97.76  | 98.54   |
| March      | 99.61  | 99.52  | 99.56          | 98.74  | 96.99  | 97.86   |
| April      | 100.81 | 98.80  | 99.80          | 99.10  | 97.45  | 98.27   |
| May        | 100.84 | 100.12 | 100.48         | 99.14  | 97.75  | 98.45   |
| June       | 101.14 | 99.70  | 100.42         | 100.88 | 97.84  | 99.36   |
| July       | 100.43 | 99.52  | 99.97          | 101.20 | 99.25  | 100.22  |
| August     | 100.01 | 99.33  | 99.67          | 102.74 | 100.41 | 101.57  |
| September  | 99.44  | 98.00  | 98.72          | 102.29 | 100.84 | 101.56  |
| October    | 99.06  | 98.30  | 98.68          | 102.23 | 101.00 | 101.61  |
| November   | 98.62  | 97.01  | 97.81          | 102.50 | 101.00 | 101.75  |
| December   | 98.25  | 97.66  | 97.95          |        |        |         |
| Year Aver. | 99.83  | 98.54  | 99.18(11 mos.) | 100.66 | 98.82  | 99.74   |

In a general way it will be noted that the decline becoming evident in June, 1923, and continuing through the rest of the year, apparently is associated with the misgivings aroused in the minds of American investors by the French occupation of the Ruhr, whereas the steady climb which has continued with but one exception since April, 1924, appears to be a result of the negotiation and adoption of the Dawes Plan which is especially reflected in the marked improvements shown in June, July and August of 1924. As a result of these changes the bond average which in May, 1924, was 2.03 per cent lower than the corresponding average of the preceding May, in November had increased to a figure of 3.94 per cent higher than in November, 1923—a relative improvement of very nearly six points.

### December Bond Market

The volume of new issues offered during December was in keeping with the volume of previous months and the rapidity with which they were reported as having been snapped up by investors would indicate that a large additional supply of new securities would be required to meet the re-investment demand which usually occurs during the first of each year.

The Dow-Jones figure for the combined average of 40 bonds (10 high grade rails, 10 second grade rails, 10 industrials, and 10 public utilities) on December 29, 1924, was 90.60 as compared with 91.32 on July 28, 1924, and 86.61 on December 29, 1923.

Among the more important offerings which have been placed on the market during the month were the following:

|               |   |
|---------------|---|
| \$30,000,000. | Govt. of the Argentine Nation Ext. S. F. "B" 6s of 1924, due December 1, 1928, price 95 and interest, to yield over 6.35%.  |
| 3,000,000.    | Kansas City, Southern Ry. Co. Ref. & Imp. 5s, due April 1, 1950, price 89 and interest, to yield about 5.85%.   |
| 3,720,000.    | Prov. of Manitoba, Canada, 20 year 4½s, due December 1, 1944, price 96.17 and interest, to yield 4.80%.   |
| 6,000,000.    | Norfolk & Western Ry. Divisional 1st Lien & Gen. 4s, due July 1, 1944, price 89½ and interest, to yield 4.81%.  |
| 2,600,000.    | St. Maurice Paper Co., Ltd., 5 year 5½% Notes, due December 1, 1929, price 98½ and interest, to yield over 5.75%.   |
| 15,000,000.   | State of North Carolina 4½% Highway Bonds, due January 1, 1935 to 1964, prices to yield 4.35 and 4.40%.   |
| 3,390,000.    | Seaboard Air Line Ry. Eq. Tr. 5s, Series X, due \$113,000. each January 1 and July 1 from July 1, 1925 to January 1, 1940, inclusive, prices to yield from 4.00 to 5.15%, according to maturity.                                |
| 200,000,000.  | United States of America, Treasury 4s, 1944-54, due December 15, 1954, price 100 and interest   |
| 15,000,000.   | Central Leather Co. 20 year 1st Lien S. F. 6s, due January 1, 1945, price 95 and interest, to yield about 6.45%.  |
| 15,000,000.   | Fisher Body Corp. 5% Notes, due each January 1 as follows: \$2,500,000. "A" 1926; \$2,500,000 "B" 1927; \$5,000,000 "C" 1928, and \$5,000,000 "D" 1929; prices 100.73 to 99.55, yielding 4.25 to 5.125%, according to maturity. |

|             |   |
|-------------|---|
| 11,000,000. | Greek Govt. 40 year Secured S. F. 7s, Refugee Loan of 1924, due November 1, 1964, price 88 and interest, to yield 8%.                         |
| 40,000,000. | Andes Copper Mining Co. Conv. Deb 7s, due January 1, 1943, price 100 (25% paid) and interest.   |
| 50,000,000. | Kingdom of Belgium 30 year External S. F. 6s, due January 1, 1955, price 87½ and interest, to yield 7%.                                       |
| 7,000,000.  | Chicago, North Shore & Milwaukee R. R. Co. 1st & Ref. "A" 6s, due January 1, 1955, price 98 and interest, to yield about 6.15%.               |
| 12,500,000. | The Philadelphia Elec. Co. 1st Lien & Ref. 5s. Series 1960, due January 1, 1960, price 99½ and interest, to yield about 5.03%.                |
| 9,000,000.  | State of New Jersey 4½s, due 1955, price 102, to yield about 4.07%.   |
| 5,320,000.  | Los Angeles, California, School District 5s, due 1925 to 1964, inclusive, prices to yield 4.00 to 4.65%, according to maturity.               |
| 10,000,000. | West Virginia Coal & Coke Co. 1st (Closed) Mtg. 6% 25 year S. F. Gold Bonds, due January 1, 1950, price 96 and interest, to yield over 6.30%. |

### The Banking Situation

The most notable change in the banking situation in the past year is in the expansion of credit by the member banks through loans on stocks and bonds and by purchase of securities. The impression seems to prevail that by some kind of management on the part of the reserve banks, together with an unusual degree of self-control on the part of the business public, the super-abundant gold stock of the country has been kept in cold storage and prevented from having its usual effect in the expansion of credit and rise of prices. This is only partially true. The low interest rates of the past year have not had the effect of encouraging speculation in commodities; and business policies in general have been conservative throughout the year. Notwithstanding the rise of farm products the Bureau of Labor's index table of commodity prices shows an average of 152.7 for November 1924 against 152.1 in November 1923. Commercial loans of the reporting member banks stood at \$8,369,000,000 on December 10, 1924, against \$8,150,000,000 on the corresponding date in 1923, an increase of only \$219,000,000, which is less than a year's normal increase.

When, however, the loans of these banks upon stocks and bonds and their investments in securities are examined, a different situation is revealed. The total of loans and investments according to the statement of December 12, 1923, was \$16,389,000,000, while by the statement of December 10, 1924, it was \$18,576,000,000, showing an increase of \$2,187,000,000. Largely as a result of placing this additional amount of credit in circulation, but partly as the result of gold imports, slackening trade, etc., the deposits of these banks increased in the year from \$15,345,000,000 to \$18,125,000,000. Moreover, it is significant that the greater part of this expansion has occurred since the 1st of June last, by which time the member

banks had reduced their rediscounts at the reserve banks to comparatively low figures. At the beginning of June the corresponding figures were \$16,662,000,000, or less than \$300,000,000 above the figures of December 12, 1923. The increase since June has been over \$1,900,000,000. This does not look as though the gold importations had been in cold storage.

#### Condition of National Banks

The reporting member banks do only about 55 per cent of the total banking business of the country, but as they are located mainly in the larger cities, the reports of all national banks are of interest in this connection. The Comptroller's abstracts of these reports show that from September 14, 1923, to October 10, 1924, deposits of the national system increased \$2,068,268,000, bills payable and rediscounts decreased \$459,764,000, loans and discounts increased \$275,592,000, United States government securities decreased \$23,572,000, other bonds, stocks, securities, etc., increased \$498,736,000, due to banks and bankers increased \$920,999,000. The latter signifies a drift of surplus funds to the centers.

On October 10, 1924, the required reserves of all national banks, actual reserves and surplus reserves, by districts, were as follows:

|                          | Required<br>Reserves | Actual<br>Reserves | Surplus<br>Reserves |
|--------------------------|----------------------|--------------------|---------------------|
| District No. 1.....      | 89,365               | 90,868             | 1,503               |
| District No. 2.....      | 427,394              | 438,251            | 10,857              |
| District No. 3.....      | 90,708               | 93,612             | 2,904               |
| District No. 4.....      | 96,726               | 97,072             | 346                 |
| District No. 5.....      | 52,027               | 54,564             | 2,537               |
| District No. 6.....      | 35,828               | 37,967             | 2,139               |
| District No. 7.....      | 181,262              | 179,179            | *2,083              |
| District No. 8.....      | 43,851               | 48,106             | 4,255               |
| District No. 9.....      | 47,243               | 49,190             | 1,947               |
| District No. 10.....     | 70,404               | 77,365             | 6,961               |
| District No. 11.....     | 48,280               | 49,996             | 1,716               |
| District No. 12.....     | 81,694               | 87,461             | 5,767               |
| Total Federal Res. Dist. | 1,264,732            | 1,303,631          | 38,849              |

\* Deficit.

It will be seen that all national banks, city and country, taken together had net reserves only about 3 per cent above legal requirements, which shows the common practice of keeping reserves employed up close to the limit, and confirms our previous statements that there is but little unemployed lending power in the country, except in the reserve banks.

#### Condition of Reserve Banks

The reserve banks touched the low point for bills discounted since 1917 on November 24, 1924, when the consolidated statement showed the sum to be \$221,405,000. These figures had increased on December 24 to \$389,574,000, which compares with \$857,151,000 on December 26, 1923. Member bank reserve account on December 24, 1924, was \$2,222,870,000, against \$1,874,486,000 on the corresponding date in 1923, an increase of \$348,384,000, which more

than accounts for the net gold imports of the year, a portion of this increase being due to the open market purchases of the reserve banks. The source of the increased lending power of the reserve banks is revealed in this increase. Gold reserves actually declined during the year from \$3,071,007,000 to \$2,912,819,000, a loss of \$158,188,000, which, however, is not significant, as the reserve banks have been paying gold certificates into circulation. The ratio of gold reserves to combined note and deposit liabilities was 71.8 per cent a year ago and is 68.4 per cent now. Of course this percentage is lower because of the policy of paying gold certificates into circulation. Of more significance is the excess of gold exports over gold imports in the month of December just closed, the largest of any month since August, 1919.

Net imports of gold into the United States in each calendar year since 1914, and in each month of 1924, are shown below:

| 1924—       |                 | Total brought forward        |
|-------------|-----------------|------------------------------|
| 1915 .....  | \$451,955,000   | \$3,535,178,000              |
| 1916 .....  | 685,990,000     | January .... 45,136,000      |
| 1917 .....  | 552,454,000     | February .... 35,111,000     |
| 1918 .....  | 62,048,000      | March .... 34,322,000        |
| 1919 .....  | 76,534,000      | April .... 45,418,000        |
| 1920 .....  | 417,068,000     | May .... 41,074,000          |
| 1921 .....  | 691,248,000     | June .... 25,181,000         |
| 1922 .....  | 275,170,000     | July .... 18,834,000         |
| 1923 .....  | 322,716,000     | August .... 18,150,000       |
|             |                 | September .... 6,656,000     |
|             |                 | October .... 19,701,000      |
|             |                 | November .... 19,862,000     |
|             |                 | December .... *34,000,000    |
|             |                 | Total .... \$343,445,000     |
| Total ..... | \$3,535,178,000 | Grand Total..\$3,878,623,000 |

\* Net exports, estimated.

Exports of gold from the Port of New York during the first twenty-seven days of December totaled \$40,242,000, the largest export movement since June, and were distributed as follows:

| Countries             | Amount       |
|-----------------------|--------------|
| Germany .....         | \$20,000,000 |
| England .....         | 9,993,000    |
| India .....           | 5,918,000    |
| Holland .....         | 1,603,000    |
| Sweden .....          | 1,000,000    |
| South America .....   | 739,000      |
| Mexico .....          | 500,000      |
| Spain .....           | 230,000      |
| Other countries ..... | 259,000      |
| Total .....           | \$40,242,000 |

#### Influence of the Gold Imports

It is evident from the foregoing figures of member bank reserves and credit expansion that all of the gold which has come into this country has found employment, although it has had little effect in immediate stimulus to general business. It has furnished the basis for a great buying movement in stocks and securities, and inasmuch as rising prices for these and low interest rates to borrowers encourage

new financing for industrial purposes, the ultimate influence of such a movement is bound to be for a general upward movement of prices, in other words, for inflation, just as the economists have been predicting. It is entirely logical that the first influence of these gold supplies should be upon the prices of outstanding securities, representing properties constructed before the war, which cannot be duplicated now by competing properties except by much larger investments. Inflation, or the readjustments caused by increasing monetary supplies, has been in process, but this is a big country, and it takes some time for it to reach all the ramifications of the business organization.

If gold imports should continue, there is no reason to doubt that they would continue to influence interest rates and eventually result in increasing business activity and rising commodity prices. If gold imports are to cease and commercial demands for money are to increase, the member banks probably will resort to the reserve banks for temporary accommodations and gradually reduce their holdings of owned securities. The reserve banks have ample credit resources and of course there is no possibility of an old-time tight money pinch, as in the days before there was a reserve system; but while the reserve banks are there to stabilize the situation, they doubtless will consider it sound policy to encourage the member banks to gradually lighten their investment holdings and transfer the funds so released to the commercial field, as needed. In other words, it could not be regarded as sound permanent policy for the member banks to rediscount commercial paper in order to carry securities. Higher rediscount rates would tend to correct any such tendency, and they may be looked for if demands on the reserve banks materially increase.

The extent to which the bond market is likely to be affected by such developments will depend upon the volume of new offerings. The absorptive capacity of the country is large, and unless developments are very rapid, it does not seem probable that good securities will be in over-supply.

#### Prospective Gold Movements

If instead of having gold imports, we should have gold exports on a considerable scale, of course the developments indicated above would be speeded up, for member bank reserves would be reduced and the banks compelled to rely to a greater extent on the reserve banks. Outside of special financial transactions, such as have been mainly responsible for recent exports, there does not seem to be much probability of net losses of gold in the near future. It is doubtful whether any of the recent exports, excepting those destined for India, have

been made on the basis of current exchange rates. The large foreign loans placed here lately have put it in the power of certain countries to buy gold here, in the case of the German government that being the purpose in view. Of the proceeds of this loan, about \$20,000,000 in gold has been shipped, leaving about \$90,000,000, all or nearly all of which is expected to go.

If it were not for the foreign loans it is not clear why gold imports should cease. The merchandise trade balance in favor of the United States in foreign trade in 1924 was approximately \$1,000,000,000, and it is difficult to figure up a balance on the so-called "invisible" account sufficient to overcome it, leaving out loans. There can be no question that from the standpoint of this country's own interests further accessions to its stock of gold are undesirable. That we have more than enough for the support of all needed bank credit is evident from the way bank credit has been extended in the past year outside of the regular banking field. A continuance of this expansion would be certain to have disastrous consequences.

#### The Favorable Trade Balance

What is to be done with the billion dollar trade balance is a question which to most readers probably will appear quite unnecessary. The idea that a "favorable" trade balance is an evil to be abated is too violent a conception for the average American, accustomed as we have been to identify such balances with prosperity. And yet if favorable balances mean a continual influx of gold we certainly do not want them. We should not send the products of our labor abroad in exchange for something that will do us harm rather than good.

The increased balance for the past year has been due in part to an increase in exports and in part to diminished imports. The former is largely the result of higher prices for agricultural products and these we hope will be maintained. The falling off of imports has been largely in raw materials for use in manufacturing, due to a slackening of industrial activity, and this we hope will prove to be temporary. With the revival of industry in Europe it is commonly predicted that our industries will feel competition from that quarter, but with general prosperity prevalent the people of this country will consume more of both home and foreign production. In any case, we must make up our minds that pay for our exported products and reimbursement for foreign loans in the long run must both come in the products of other countries. We cannot with any gain to ourselves go on draining other countries of the gold which they need as the basis of their monetary systems. If we could do it the ulti-

mate result would be the abandonment of the gold standard by all other countries, and the destruction of its value to us.

Just at this time there is a general movement in Europe to regain the common gold standard and the influence of the United States over gold movements is of great importance. Of course while loans to Europe will temporarily check the movement to this country, they will not have permanent effect except as they increase the industrial output of the borrowing countries.

#### The Foreign Exchanges

The principal foreign exchanges compare with a year ago as shown by the following table:

|             | Unit Value | Rate in Cents Dec. 29, 1924 | Rate in Cents Dec. 29, 1923 | Change From Par | Depreciation |
|-------------|------------|-----------------------------|-----------------------------|-----------------|--------------|
| Canada      | 1.00       | 99.75                       | 97.56                       | .25—            | ¼%           |
| Germany     | .2382      | 23.82                       | —                           | —               | —            |
| Italy       | .1930      | 4.24                        | 4.33½                       | 15.06—          | 78.03%       |
| Belgium     | .1930      | 4.98                        | 4.49½                       | 14.32—          | 74.19%       |
| France      | .1930      | 5.41                        | 5.13½                       | 13.89—          | 71.96%       |
| England     | 4.8665     | 473.25                      | 433.62                      | 13.40—          | 2.75%        |
| Switzerland | .1930      | 19.45                       | 17.49                       | .15+            | .78%†        |
| Holland     | .4020      | 40.52                       | 38.05                       | .32+            | .79%†        |
| Denmark     | .2680      | 17.69                       | 17.77                       | 9.11—           | 33.99%       |
| Norway      | .2680      | 15.15                       | 14.73                       | 11.65—          | 43.47%       |
| Sweden      | .2680      | 26.98                       | 26.48                       | .18+            | .67%†        |
| Spain       | .1930      | 14.01                       | 12.97                       | 5.29—           | 27.41%       |
| Argentina   | .9648      | 91.00                       | 72.75                       | 5.48—           | 5.68%        |
| Japan       | .4985      | 38.62                       | 46.50                       | 11.23—          | 22.52%       |

\* \$23 per trillion.  
† Above par.

#### The Pound Sterling

Two years ago the pound sterling seemed to be within reaching distance of parity with the dollar, the exchange touching \$4.72, but political uncertainties in Europe turned it downward, and in the Fall of 1923 the success of the Labor party in England in securing power, after a campaign in which it advocated a capital levy, caused a considerable movement of capital from the country, which of course had an adverse effect upon exchange rates. After getting down to about \$4.20, improvement began, and in recent months the movement has been unexpectedly rapid, in view of the fact that British purchases of cotton and wheat have been heavy at the same time. It serves to illustrate that credit operations between the United States and Great Britain have become so large as to obscure the movement of commodities. Low rates for money in the United States, much European borrowing here and increasing confidence in an early approach of the pound sterling to par, probably have been the chief factors in the appreciation which has occurred. American and continental capital have been going into sterling investments, with the result that it has recovered as appears above, and speculation centers upon whether or not London will make an early effort to resume free gold payments.

Notwithstanding considerable theoretical discussion in favor of a composite standard

as a substitute for the gold standard, the business community is decidedly against any experiments of the kind, although disposed to be cautious about undertaking to resume free gold payments until sure they can be maintained. The essential thing is that the balance of regular payments in the international exchanges shall be once more in favor of London, as for years they were before the war. In those years England was a steady investor abroad. She always had a surplus as between income and outgo, which made it easy for the Bank of England to maintain gold payments upon remarkably small reserves of gold. Her position is not as sure as it was then. Imports have increased more than exports, for in the demoralized state of trade the world could get along without manufactures better than England could get along without the necessities which it must get from abroad. British trade is improving, however, and nowhere is the importance of stable exchanges better understood than in London. England has more to gain than any other country from a general return to the gold standard, and nothing will do so much to further the accomplishment as the re-establishment of sterling on gold.

It is quite likely that instead of fixing a forward date while sterling is still ruling below par, the policy will be to wait until par has been actually reached and parity maintained for some time by the unannounced policy of the Bank of England.

#### Continental Countries

Germany is back on a gold basis, the central bank having been supplied with ample reserves through the recent foreign loan, aggregating over \$200,000,000. The head of the new Reichsbank, who has managed the Rentenbank with a firm hand throughout the past year, is in command of the situation, and barring some political disturbance there is no room for doubt that the stability of the currency will be maintained.

It will be seen by the above table that the currencies of Holland, Sweden and Switzerland are all quoted above the pre-war pars, the quotations including the usual exchange charges. Denmark has been working upon the problem of stabilization throughout the past year without as yet solving it. France has made no announcement except of a purpose to prevent the franc from depreciation. Its statements carry an implication that the franc may appreciate and that no doubt is a cherished hope. Belgium is intent upon stabilization, and does not say more. Italy has improved the stability of the lire in the past year, the extreme fluctuation in cents being 4.53½ high and 4.08½ low, and is intent upon doing still bet-

ter. Czecho-Slovakia is working on the same problem. Austria and Hungary are following, thus far successfully, the plans for stabilization adopted under the auspices of the League of Nations. Poland has established during the past year a new central bank with a stabilized currency. Finland has maintained its bank currency throughout 1924, with fluctuations in the dollar exchange rate limited between 39.75 and 40.44. The Soviet government in Russia has adhered to its plan for a currency on a gold basis, and has imported gold recently for its support. All Europe in fact has been steadily working to overcome the state of monetary disorder which has existed since the war, and substantial progress has been made in the past year. The return of the pound sterling to par will be very helpful to the efforts of the other countries to stabilize their currencies.

### **Treasury Financing**

On December 3, 1924, the Treasury Department announced the terms of its December financing, in the form of an offering of 4 per cent bonds, dated December 15, 1924, optional December 15, 1944 and redeemable December 15, 1954. This is the first offering of long term bonds since the issuance in October 1922 of the 4½ per cent optional 1947, due 1952.

The cash offering was for \$200,000,000 or thereabouts, with the right reserved to the Secretary of the Treasury to allot additional bonds to the extent that Liberty 3rd 4½s, due in 1928 and United States 4 per cent certificates of indebtedness and Treasury 4¾ per cent notes, both maturing March 15, 1925 were tendered in payment. United States 2¾ per cent certificates of indebtedness maturing December 15, 1924, were acceptable in payment of allotments made on cash subscriptions, but were not acceptable in exchange for the new 4s.

The Treasury announced on December 21st, that about \$1,900,000,000 in cash and exchange subscriptions had been received for the new 4s, the cash subscriptions aggregating approximately \$1,400,000,000, the remainder of \$500,000,000 being made up of exchange tenders. Inasmuch as the cash offering was for only \$200,000,000 or thereabouts, the Treasury will allot approximately \$225,000,000 against cash subscriptions, as usual giving preference to small subscriptions—in fact all cash subscriptions above \$10,000 were wholly rejected. All exchange subscriptions will be allotted in full.

It is expected that the total amount of the new 20-30 Year 4s to be issued will approximate \$750,000,000. Transactions in the new 4s, have been made in the open market and on the New York stock exchange at prices ranging from 100½ to 101, the high sales being made shortly after the closing of the subscription

books and the low price shortly before the close of the month, the decline in these bonds taking place in sympathy with the declining market in liberty bonds, the latter issue showing a net average decline for the month of December of approximately ¼ of 1 per cent.

### **The State of Agriculture**

The most important change in economic conditions in the United States in the past year has been in the improvement of the position of agriculture. Although all farm products are not bringing higher prices than a year ago, and some are lower, the general position of the farming community is decidedly better, and the producers most in need of relief have gained it. Viewing the situation in all phases, conditions indicate a return to more normal relations between farm products and other commodities than have prevailed over the last several years.

The Department of Agriculture has estimated the farm value of the crops harvested in 1924, based upon prices ruling December 1st, at \$9,479,902,000, which compares with \$8,726,889,000 in 1923 and \$7,816,020,000 in 1922.

#### **The Wheat Situation**

The most important change has been in wheat. Last year and in the first five months of this year the plight of the wheat farmers was a national problem. With the price but little above \$1 per bushel in Chicago at the beginning of June, discussion was raging over this country as to the malign influences responsible for the situation and what the government could do about it. Now, with the price of wheat about 70 cents per bushel higher, discussion rages in Europe as to the malign influences that have increased the cost of living and what can be done about it. In England a Royal Commission is conducting an investigation. The common talk of course is that American speculators are responsible.

According to the calculations of the United States Department of Agriculture, the average production of wheat in the world in the five years next preceding the war was 3,573,947,000 bushels. In the last five years the Department calculates the world production as follows:

|           | Bushels       |
|-----------|---------------|
| 1920..... | 3,033,438,000 |
| 1921..... | 3,258,089,000 |
| 1922..... | 3,348,099,000 |
| 1923..... | 3,743,000,000 |
| 1924..... | 3,299,000,000 |

This shows a reduction of about 444,000,000 bushels from last year's production, or about 12 per cent, and indicates that the difference in price is not so much because this year is below recent years as because last year was above.

It is important in considering the supply of wheat to also take into account the supply of rye, inasmuch as this grain is largely used in Europe for bread. In the five years preceding the war the average production of rye in the world was 1,761,695,000 bushels, of which old Russia supplied about 719,000,000 bushels. In the last five years our Department of Agriculture has estimated rye production as follows:

|           | Bushels       |
|-----------|---------------|
| 1920..... | 970,356,000   |
| 1921..... | 1,211,062,000 |
| 1922..... | 1,344,469,000 |
| 1923..... | 1,431,748,000 |
| 1924..... | 1,174,000,000 |

This shows that rye is down about 257,748,000 bushels from last year, or about 18 per cent, and indicates a falling off in wheat and rye together of about 701,748,000 bushels.

Leaving Russia out of the account, because shortage there signifies little except as to its exports, the northern hemisphere has produced 751,000,000 bushels of rye, against 914,000,000 in 1923, a reduction of 163,000,000 bushels. The wheat crop of Europe outside of Russia is less than last year by about 130,000,000 bushels.

The aggregate of wheat importations into western Europe from the 1923 crops was 531,618,000 bushels and of rye about 71,000,000 bushels, and non-European importing countries took 150,000,000 bushels of wheat.

These importing countries must be supplied by the few countries having a surplus. The United States Department of Agriculture, in a bulletin issued November 26, 1924, gave maximum and minimum estimates of the probable exports of the principal countries for the year ending June 30, 1925, as follows:

|                          | Maximum<br>1,000 bushels | Minimum<br>1,000 bushels |
|--------------------------|--------------------------|--------------------------|
| Canada .....             | 190,000                  | 170,000                  |
| United States (net)..... | 225,000                  | 200,000                  |
| Argentina .....          | 150,000                  | 130,000                  |
| Australia .....          | 85,000                   | 75,000                   |
| British India .....      | 35,000                   | 25,000                   |
| Other countries .....    | 20,000                   | 10,000                   |
| Total.....               | 705,000                  | 610,000                  |

Probable exports of rye are placed at 42,000,000 bushels, Russia being counted at 15,000,000, against 42,471,000 exported last year. Russia is an uncertain quantity and may not export any.

The wheat crops of the four principal exporting countries named above for 1923 and 1924 are given below and also the estimated carry-over of old wheat on July 1, 1924.

|                 | 1923          | 1924          | July 1, 1924<br>Stocks |
|-----------------|---------------|---------------|------------------------|
| United States   | 785,741,000   | 872,673,000   | 104,000,000            |
| Canada .....    | 474,199,000   | 271,622,000   | 65,000,000             |
| Australia ..... | 125,233,000   | 147,500,000   | 30,000,000             |
| Argentina ..... | 247,036,000   | 191,666,000   | 40,000,000             |
| Total .....     | 1,632,209,000 | 1,483,461,000 | 289,000,000            |

The rye crop of the United States is 63,446,000 bushels in 1924, against 63,077,000 in 1923; that of Canada, 14,500,000 bushels in 1924, against 23,231,000 last year; the rye production of the other countries is negligible.

It will be seen that while Europe needs more bread grains than last year, the exporting countries have less to spare, and if the carry-over in both importing and exporting countries was entirely used the deficit would not be covered. The carry-over may be reduced, but of course it cannot be completely eliminated.

The maximum estimate of possible exports of wheat from the United States and Canada for the year ended June 30, 1925 is 310,000,000 bushels, and up to December 24 they had amounted to 254,499,273 bushels, which is more than four-fifths of the estimate in less than six months.

The visible supply of wheat in the United States and Canada on December 20, as reported by Bradstreet's, was 181,770,000 bushels which is unusually high, but the crop has come out of farmers' hands with exceptional rapidity, and it is believed that fully 70 per cent has been marketed.

These are the conditions that are back of the market.

The United States and Australia are the only countries which have increased their crops of the bread grains over last year. The United States Government's preliminary estimate of the wheat crop issued June 9th last based on conditions June 1st, was for 693,000,000 and every succeeding estimate has been larger, the final one issued in December being 872,673,000, an increase of 179,000,000 bushels over the June figures. The quality is fine, the weight overrunning the measured bushel, and much of it has commanded premiums over the market quotations. The farmers of the United States have been in the fortunate position of having a good crop in a year when poor crops were the rule the world over.

#### The Future of Wheat

In the five years preceding the war, the acreage in wheat harvested ranged from 44,262,000 in 1909 to 50,184,000 in 1913, the average being 47,097,000 acres and the average yield 690,108,000 bushels, or 14.7 bushels to the acre. In the seven years from 1914 to 1920 inclusive the acreage rose to 75,694,000 in 1919 and dropped back to 61,143,000 in 1920. The average yield per acre in this period was 14.5 bushels, and the average farm price per bushel was \$1.569. The highest average farm price per bushel was realized in 1919, when it was \$2.149 and the lowest in 1915, when it was 91.9 cents. Since 1921 acreage harvested, average yield per acre, aggre-

gate production and average farm price have been as follows:

|           | Acres      | Yield<br>per acre | Production  | Farm<br>Price |
|-----------|------------|-------------------|-------------|---------------|
| 1921..... | 63,696,000 | 12.8              | 814,905,000 | \$0.926       |
| 1922..... | 62,317,000 | 13.9              | 867,598,000 | 1.007         |
| 1923..... | 59,659,000 | 13.5              | 785,741,000 | .923          |
| 1924..... | 54,209,000 | 16.1              | 872,673,000 | 1.302         |

What is the lesson to be drawn from this sudden reversal of the wheat situation from one where the buyers dominated it to one where buyers have been keenly competing for urgency as ever about providing a remedy for the situation last June are giving warnings to the effect that the present is a temporary situation, that shortages abroad may not occur again and hence there is just as much urgency as ever about providing a remedy against a repetition of last year's conditions.

Looking over the record of recent years, however, there seem to be some reasons for thinking that the world is not likely to grow excessive quantities of wheat and that even another crop as large as that of 1923 might not have so depressing an effect upon the price as that crop had. In the first place it was an unusually favorably year for yield the world over. The performance of Canada especially was unusual. The acreage and production of Canada in the last five years, together with the average of the five years 1909-13, are given below:

|                 | Acres      | Production  | Yield<br>per acre |
|-----------------|------------|-------------|-------------------|
| Average 1909-13 | 9,945,000  | 197,119,000 | 19.8              |
| 1920            | 18,232,374 | 263,189,300 | 14.4              |
| 1921            | 23,261,000 | 300,858,000 | 12.9              |
| 1922            | 22,423,000 | 399,786,000 | 17.8              |
| 1923            | 22,673,000 | 474,199,000 | 20.9              |
| 1924            | 22,505,000 | 271,622,000 | 12.1              |

It will be seen that the acreage has shown no increase in the last four years, and that the yield per acre last year was phenomenal. Of course, this year's price may increase the Canadian acreage, for it must be considered that Canada has a world of vacant wheat land. This is something wheat-growers everywhere must bear in mind. On the other hand, last year's yield per acre will be only occasionally repeated. The chances are against Canada's going back immediately to a production above 400,000,000 bushels. Argentina's production in 1923 was the greatest on record, and Europe outside of Russia was at the top notch, and with these favorable conditions everywhere the world's stocks were not excessive in July 1, 1924.

It is true that there proved to be wheat enough in 1923 to last through to the new crop year, but there was little to spare—not a safe margin for the world to work on, as subsequent events have demonstrated. It is not sound economy or good marketing to have such price fluctuations as have occurred in

the last seven months upon a reduction of only 12 per cent in the yield. There should be larger reserves to protect the world's needs.

#### Lack of Speculation

Evidently the low price on the 1923 crop was due to a lack of speculative interest. The speculator is the man who takes the crop at harvest time and carries it for distribution throughout the year, and this speculative demand—or investment demand if that term is preferred—was not strong enough last year to carry the load.

Few people think any good of the speculator, and the farmers' organizations are always agitating against speculation in farm products, but here is one time when the speculator was missed.

The chief explanation probably is to be found in the uncertainties which have attached to the forward grain business since the war. Russia has been an important element of uncertainty. No one could tell how much grain was coming out of Russia, for there was talk of large amounts. The ability of Europe to buy was also uncertain. Germany was dangerously near collapse last year. The wheat market needed buyers who would take the grain and carry it to May or June of 1924, or into the new crop year if need be, and in view of these uncertainties the undertaking looked a good deal more like speculation than investment. With more settled conditions in the future the task of financing the carry-over will not be so difficult.

Notwithstanding this more hopeful view, it remains sound policy for the farmers of this country to adopt diversification as their permanent policy. The risks of weather and markets together are too great to be borne upon a single crop where diversification is possible. It must be considered, however, that there is a strip of plains country reaching from Mexico into Canada where wheat is a far more promising crop than anything else yet tried, and this region doubtless will continue to place its bets on the great cereal. This constitutes another reason why the farmers who are able to grow other crops should go light on it.

The Government estimates the winter wheat acreage at 6½ per cent above that of the late crop, and wheat can be sold in the Chicago market now for July delivery at about \$1.30 per bushel.

#### Profits of Speculators

The rise of farm products since June has given large profits to speculators who had the courage to buy when prices were low, and these profits are played up largely in the newspapers, often very much exaggerated. Operations on the Chicago grain market are now

under the constant observation of the Grain Futures Administration of the Department of Agriculture, which has access to the books of important traders, and in view of recent reports that a well-known Chicago operator was "long" 40,000,000 bushels of wheat at Chicago and Winnipeg, besides large amounts of other grains, an official statement was given out of which the following is the substance:

This comment is entirely without foundation. Our records do not show any such holdings at any time by Mr. Cutten or any other individual. Moreover, unwarranted statements such as these are liable to do much harm to individual traders and at the same time discredit the exchanges and the entire system of our grain marketing machinery.

It is common to hear the profits of speculators referred to in a critical manner as though they had been obtained unfairly, without consideration or any service, and were evidence of something fundamentally wrong with the marketing system. The critics seem to take no account of the fact that in order to make the profits complained of the speculators must have been buyers of grain when prices were low, and therefore supporters of the markets at a time when they were in greatest need of support. If it had not been for their buying, prices would have gone lower at that time than they did go; furthermore, if more people had bought at that time the markets would have advanced more promptly than they did. These buyers when prices were low were rendering an economic service; their influence so far as it went, was for a more uniform level of prices; they bought grain for the purpose of taking it off the market at the depressed level and releasing it to the market later when prices were higher, which clearly tends to bring the extremes closer together. Why should complaints be directed at them?

They took chances last June that other people did not care to take. A great many corn crops that have been unpromising in June have turned out well in November, and the course of the wheat market since June has been influenced by many conditions that had not developed then. Uncertainties affecting the relations between supply and demand have been eliminated, and as it turns out the judgment of those who have carried grain since June has been justified. Speculators, however, do not always win in their attempts to anticipate future conditions, and in considering what they have gained in this operation it is only fair to include what they have lost in the same kind of operations at other times. The net gain over a term of years is the real compensation for the function which they perform.

#### Service of the Grain Exchanges

The course of the market has demonstrated the fallacy of the theory that the farmers are

at a disadvantage as sellers because they do not themselves name the prices at which their products shall be sold. It is a common grievance voiced by spokesmen who assume to represent the farmers that all other producers fix the prices of their products, while the farmer goes helplessly to market and takes what is offered him. It has been said within the last month by the head of a farmers' marketing organization that foreign countries are represented in this market by only a few buyers, the inference being that they could do what they please with prices. A rise of 70 cents per bushel in seven months affords little support to the theory that buyers do not compete for wheat. The truth of course is that there is inevitable competition when any chance of securing profits appears, and the grain exchanges afford facilities which enable anybody to buy grain, carry it from one time to another and sell it in any market where it may be wanted. The grain markets are open auctions, where the grain is sold to the highest bidder, and there is no more reason for thinking that the seller is at a disadvantage on a grain exchange than for thinking the seller is at a disadvantage on a stock exchange.

#### Agricultural Commissions

It is noteworthy that one of the first acts of the new government of Great Britain has been to call a conference to consider what may be done for the relief of the agricultural situation, while in this country one of the first acts of President Coolidge following the election was to appoint a commission for the same purpose. Every country in the last four years has had an agricultural problem, which fact is enough in itself to show that the disturbing influence has been a general one, not confined to any one country, and probably not subject to control by legislation. In view of the rapid recovery of prices in the past year, the obvious conclusion seems to be that relations between production and consumption were temporarily disturbed, and there is no practical remedy for such disturbances except in a readjustment of those relations. The chief objection to commissions is that they may feel it incumbent upon them to recommend some governmental action when none is practicable.

#### Corn, Live Stock and the Dairy

Higher values for last season's grain crops over the previous two years has another side when the live stock and dairy interests are considered. Corn is the raw material of the live stock industry, and the short crop has badly disarranged the regular course of cattle and hog production. The range cattle business, which consists for the most part in raising young cattle to be finished off with a corn ration on the farms in the corn-growing states, has been

in distress since 1919, when purchases of beef for the armies came practically to an end and prices began to decline. The years of high prices lured the ranchmen into debt to increase their herds, the severe winters of 1919-20 forced them into debt still more deeply, and droughts over several summers involved them in heavy expense. Low prices have made it impossible for them to recuperate or even hold their own, and now the short corn crop cuts down the demand of the cornbelt for feeders.

The public constantly grows more particular about the quality of beef, and the old-fashioned three or four year old steer fattened on grass has gone quite out of style. John Clay & Co.'s report of the Chicago market says:

The price spread in steers, unusually wide recently, showed further expansion when prime Illinois fed yearlings reached \$14.75, a new high mark for the year, and numerous lots of plain shortfaced steers went on killing account under \$7, some of these carrying considerable weight. It was an uneven trade on fed steers, the bulk of which were \$7.50 to \$9.25 offerings, many arrivals within this price range having had a comparatively short turn on corn, although weighty offerings going near the outside price had frequently been fed for six months or more.

It is safe to say that the latter class of cattle have not paid their cost. On the other hand there is little reason to doubt that one of these days there will be a shortage of beef cattle and consumers will take their turn at paying for these unprofitable years in the cattle business. It may be put down as certain that beef steak is not going out of style, and that in the long run producers will not continue to operate at a loss.

The hog market is affected in like manner. The farmers are reluctant to buy or feed high-priced corn, and pour thousands of unfinished porkers upon the markets. Clay's report touches upon this situation as follows:

One of the marvels of the trade is the broad demand and strong market for good hogs in the face of the excessive supplies. Pork can be stored successfully, however, and the packers as well as everybody else can see the handwriting on the wall. These heavy runs of immature hogs and pigs simply mean that packing hogs will be scarce next Spring and the packer with a cellar full of product will be in a position to realize handsomely on his investment.

The big wonder in the hog trade is that the enormous supply of inferior light stuff is moving as well as it is. The spread in prices between the good and poor hogs is very wide, but since the country is bound and determined to get rid of these pigs it is a matter of congratulation that they can be disposed of at all.

This is a clear case of readjustments, correcting industrial disorganization, but does not signify permanent conditions.

Cattle receipts at nine leading markets for eleven months of 1924, to December 1, were 10,379,427 head, against 10,511,051 head in 1923, a net decrease of 131,624, or 1.25 per cent. The movement of feeder cattle from these markets to farms from July 1 to November 28,

1924, was 1,964,802, against 2,429,439 in the corresponding period of 1923.

The receipts of hogs in these markets in the same months of 1924 were 29,635,682, against 30,255,317, a net decrease of 619,635 head, or 2.04 per cent. When it is considered that the 1924 receipts include so many immature animals it is evident that overproduction is being corrected.

#### Sheep and Wool

The situation of the sheep-growers is in sharp contrast to that of the cattle-growers. Lambs are bringing highly satisfactory prices and ewes are in demand for increasing the flocks. The main source of strength in the sheep situation is that the price of wool has been steadily moving upward, owing to a recognized world scarcity. The Chairman of Dalgety & Company, the leading wool house of Australia, at the annual meeting of the company held recently in London, described the wool situation as follows:

This year it is expected that the Australian clip will amount to somewhere about 2,000,000 bales, which would more than make up for last season's decrease. The New Zealand clip, on the other hand, will probably be about stationary. Values are now on a very high level—some people may consider them dangerously high—but according to reliable statistics the world consumption of wool has far outstripped the production.

If you take prices ruling at the end of June, 1923, as compared with those of today, you will find that merino wools are from 30 to 35 per cent dearer: fine crossbreds 40 to 45 per cent dearer: whilst medium and coarse crossbreds show an extraordinary advance—as much as 90 to 100 per cent. There is a strong demand for fine wools today, but an even keener demand for crossbreds, and this has resulted in the clearance of the whole of the stocks of B.A.W.R.A. wool—the last bale being sold in Liverpool in May of this year.

The British-Australian Wool Realization Association, to which reference is made in the last paragraph of the quotation, was a government corporation which took over all British wool production during the war, and came out with very large stocks. The existence of these stocks was mainly responsible for the collapse of wool prices in 1919-20, and their clearance is one reason for the present strength of the market.

#### The Cotton Crop

Fine weather in the Fall months increased the yield of cotton, and the Government's latest estimate, issued December 16, was raised to 13,153,000 bales, which indicates the largest aggregate value exceeded only in the five years, 1903, 1920, 1919, 1918 and 1917.

The trade is generally of the opinion that the Government is still underestimating the crop, the principal reason for this view being that the ginnings to December 12 were 12,796,000 bales, which is remarkably close to the estimate of total production. Nevertheless the market has been well sustained and closes the year above

24 cents. The consumption of cotton in November was disappointing, being 492,233 running bales, against 532,629 in October, but exports, at 1,306,530 bales, were very large, showing that foreign spinners are not afraid of cotton at the present level and are planning for large business. Exports since August 1st now total 4,000,000 bales, and are more than 1,000,000 bales above the movement in the corresponding period of last year. Shipments to Germany up to December 19 were 915,857 bales, against 553,906 in the corresponding period last year.

In October the working time of mills in Lancashire running on American cotton was increased from 26 hours per week to 32, and on December 1st the running time was again extended by vote of the association from 32 hours to 39, which shows that feeling in the industry has been improving rapidly.

The yield obtained in the past season and the success with which the boll-weevil is now combatted where systematic efforts are made, together with the reviving foreign demand, makes the outlook for the growers more hopeful than it has been for several years.

The world has been economizing in purchases of cotton goods until presumably it is ready to increase consumption as purchasing power improves.

### The Oil Industry

The world's production of petroleum during 1924 showed a slight decline in comparison with 1923, the production for 1924 being estimated at about 1,000,000,000 barrels in comparison with 1,018,900,000 barrels for 1923, a decline of 1.8 per cent. Figures are not available for oil production in countries outside of the United States later than May, 1924, but South American production during 1924 will be about the same as that of 1923, and Rumania and Mexico will run about the same, while Russia will show a ten to fifteen per cent increase. The most notable development in foreign fields has been in Venezuela, where production increased in the last part of the year.

Indications are for a great demand for petroleum products during 1924, and a redoubling of foreign efforts to find oil to meet that demand. The world is consuming within 9 per cent of as much petroleum as is produced annually, and the present market is around 1,000,000,000 barrels a year.

In the United States the industry came into 1924 on a wave of optimism because of the general belief that the three great oil pools in the Los Angeles Basin in California, namely, Long Beach, Huntington Beach, and Santa Fe Springs, which had disturbed the oil markets of the world in the last half of 1923, would show marked declines; and that substantial

drafts on reserve stocks would occur. Under the stimulus of competition, premiums for crude oil were paid in the Mid Continent field and posted prices for crude advanced. The industry's expectations of substantial declines in the California fields were fulfilled, but new oil from stimulated drillings, with heavy accumulations of gasoline stocks piled up in anticipation of the summer demand, broke the market during the consuming season, and the industry repeated the same marching up the hill and down again that it had gone through in 1923.

During the last four months of the year there was a closer equilibrium between supply and demand, and optimism had begun to develop again, when checked by the development of a new field at Wortham, Texas. The first well in this field was drilled in on November 22nd. To-day the production of the field is in excess of 36,000 barrels per day from 6 wells, and more than 300 rigs are up.

The amount of gasoline in stock in the United States at the beginning of 1924 was 1,074,899-650 gallons; amount in stock on November 1, was, 1,152,374,237 gallons; and at the present rate of domestic demand, this supply is sufficient to last for forty-seven days. Gasoline consumption in this country plus exports during the year was approximately 8,850,000,000 gallons, an increase of 1,294,000,000 gallons, or 17 per cent over 1923.

Gasoline prices at the end of the year were below the pre-war level, despite the general tendency of other commodity prices to advance. The consumption of all other petroleum products such as fuel oil, lubricating oil and kerosene broke all previous records.

The low price level existing during most of the year had a serious effect upon the earnings of oil companies, many of them being obliged to suspend dividends. As a rule profits were below what would naturally be expected in a hazardous business as the oil industry is. Oil stocks have responded feebly to the bull market following the election, but the industry probably is in a sounder condition than it has been at any time since 1920, because there is a more general knowledge and understanding that the era of easy money in oil is behind and that profits will come through efficiency, economy and salesmanship as in other industries. The constantly increasing demand seems to give assurance that the period of over-production will not be prolonged indefinitely.

Leaders in the industry are cautioning producers against extending drilling operations, calling their attention to the fact that through the development of cracking processes fuel oil is now being converted in large volume into gasoline, and that cracked gasoline and casing-head gasoline make it possible for the industry

now to get along with one barrel of crude oil where under old conditions two were required.

#### An Official Conservation Board

Near the close of the year occurred a very momentous event which will likely be historic in oil history. President Coolidge, on the 18th day of December, created a Federal Oil Conservation Board, consisting of the Secretaries of War, Navy, Interior and Commerce, instructing them "to study the government's responsibility and to enlist the full cooperation of representatives of the oil industry in the investigation" of the problem of oil conservation. The President said, "The problem of a future shortage in fuel and lubricating oil, not to mention gasoline, must be avoided, or our manufacturing productivity will be curtailed to an extent not easily calculated" . . . "oil of which our resources is limited, is largely taking the place of coal, the supply of which seems to be unlimited, but coal cannot take the place of oil in most of its higher uses on land or sea or in the air." . . .

The President has gone at the matter in a business-like way and has not hesitated to issue from the White House directions for an investigation of the oil situation which will take the industry out of the ruck of inquisitions carried on in an ex-parte way by various legislative committees, commissions, governors, municipal authorities, etc. That there is an oil problem is apparent; that future generations may point back to wasteful methods of production and of consumption on the part of the present generation has long been asserted.

#### Address by Mr. Mitchell

Mr. Charles E. Mitchell, President of the National City Bank of New York, was a speaker at the fifth annual meeting of the American Petroleum Institute, at Fort Worth, Texas, on December 9th last. He said in part:

As I recall the report of the Senate Committee on Manufactures of which Senator La Follette was chairman, the indictment against the oil industry for its conduct over recent years is that profits in the industry have been large and that price changes, first up and then down, have been disastrous in their effect. Regarding profits, I shall have something further to say. Suffice it for the moment to challenge the naming of any industry that has developed except as its profits have been substantial. So far as radical price changes are concerned, it is certain that the oil industry has not been the only one subject to them. My business gives me a fairly wide acquaintance with the industries, and I know of none which has not had to contend with violent price changes in recent years. Almost without exception, prices rose to a peak in 1919 or 1920 and then plunged suddenly downward, inflicting heavy losses everywhere. It is unnecessary to enter upon an extended discussion of those changes, but if sudden and unexpected changes in those years justify Government regulation, there is a sound case for Government regulation of all industries. Your business, by its very nature, is peculiarly liable to price changes because of fluctuation in production. Oil is not manufactured under conditions which given even ordinary stability to costs and production. It is dis-

covered and produced under conditions which give great irregularity to supply and therefore to price. The events of the past two years afford abundant evidence.

It is contrary to experience, and to the principles governing prices everywhere, to expect prices to be stable when the relations between supply and demand are changing. They do not maintain such stability for farm products or for copper or coal, or any kind of manufactures, and of course, they do not for oil. In every industry prices are a means of bringing supply and demand together. High prices tend to stimulate production and reduce consumption; low prices, to curtail production and increase consumption. The right price is the price at which production and consumption meet and balance each other.

The government committee's theory about profits was equally fallacious. It thought that profits were far too high in certain years,—years which were years of great expansion in the oil industry,—years when the development of the internal combustion engine was compounding the demand for oil and gasoline. The public is not likely to fully appreciate all that it has meant to provide the supply of fuel for the automobile. The production of crude oil was increased from 63,000,000 barrels in 1900 to 281,000,000 in 1915, and to 725,000,000 barrels in 1923, and the production of gasoline was increased from about 7,000,000 barrels in 1900 to 41,000,000 in 1915, and to 180,000,000 barrels in 1923. This expansion required vast expenditures of capital. They were necessary, first, in exploration, to locate new fields. The necessity of going constantly deeper greatly increased the cost of exploration. There were required vast sums for refineries, for storage capacity, for transportation equipment, distributing facilities, and working capital. The investment in the oil industry as a result is now estimated at \$8,000,000,000 against probably not more than \$1,000,000,000 fifteen years ago.

How was such an amount of capital to be obtained? In every line of business, when a similar situation exists this question is answered through rising prices for the product and through increasing profits. There is no other way of attracting capital. If the public wants a greater production, the capital for that production must be provided either from the profits of the industry or by attracting it from profits and savings elsewhere. In either case, profits in the specific business must be increased. In the case of the oil industry, the new capital was obtained from both sources and apparently in about equal amounts, from the profits of the industry, and from outside. If the profits of the oil business had not been what they were, the increased production could not have been had without raising more capital outside, and of course, it was profits made within the industry that made it possible to raise capital from outside. Critics may analyze the situation to their hearts' content. They can show no other practical way by which the industry could have met the increasing demand for its product. It was simply another instance of the natural working of the economic law.

With an almost critical condition as to supply, prices of oil and oil products advanced just as the price of wheat advanced from \$1.00 a bushel in 1913 to over \$3.00 a bushel in 1920, and as it has risen from about \$1.00 to \$1.50 per bushel in the last six months. Where price changes are reasonably accounted for on natural grounds, there is no justification for reading sinister motives into them. The price of wheat did not stay above \$3.00 per bushel for the reason that such a price stimulated production in excess of the consumption demand. The price of oil has fallen from \$3.50 a barrel for the same reason. If the oil industry overshot the mark, and there has been overdevelopment in the last two years, it is in part due to the natural uncertainties of oil production. No one could have foreseen the prolific yields of some of the fields that have been discovered. But the public should bear in mind that the burden of this temporary overproduction is not upon the consumers but upon the oil industry itself, which has taken heavy losses as reflected in the heavy depreciation in the value of oil securities. And again the public should bear in mind, as they are tempted to be critical, and in the face of their very

rapidly increasing consumption of oil since 1913, oil products have in every year averaged lower in relation to the prices of 1913 than the group of 404 principal commodities included in the price tables compiled by the Bureau of Labor.

That record was made possible only by the profits of the business, which were intelligently employed, not only in increasing production, but in methods of treatment. The industry can well take its stand on the net result to the public in that period of enormous expansion. It was not accomplished by mere investment of money, multiplying properties, and duplicating equipment. Something besides cold cash has been put into this industry. Let it never be forgotten in accounting for results, that the greatest factor in industrial progress is the initiative and personality of the men who constitute it. Your industry has been made what it is by a high order of business acumen and management, by organization and enterprise, and by highly developed technical skill. Every branch of science that could make any contribution has been drawn upon in effecting the processes and extracting the values in the crude product.

Let this fact strike home, that more than three times as much gasoline is now extracted from a barrel of crude oil as was obtained fifteen years ago, and that if improvement in process had not brought about, it would have been necessary to find three times the volume of crude oil now produced in order to obtain the present production of gasoline, or, this being impossible, that the price of gasoline would have been enough higher to restrict the demand to the available supply. I say again that the final results of the running account between the oil industry and the public are to be found in the price of oil products.

It would be a great mistake to underrate to the public the gravity of the oil situation. The fact that discoveries of pools have been made so constantly and rapidly in recent years that the industry has been in a chronic state of overproduction, of course, does not mean that such discoveries will continue to be made indefinitely. It means that exploration has been going on with greater rapidity than ever before, aided by experience and by geological science. It means that discoveries are less accidental than before, and it means that the continent is being carefully, intelligently and systematically explored from ocean to ocean. New discoveries will be made from time to time, but every year the chance of such discoveries would seem to be more improbable. Every year the search will have to be extended to less promising territory and to greater depths, with greater attendant expense and less likelihood of success. This is the prospect which lies before the industry. It is a challenge of greater moment than has ever been made to any industry before. It can not be supposed that you will go on finding oil pools forever, but if you can keep up the supply until science solves the problem of a substitute, the oil industry will have made a record of achievement in service in which every member of this Institute may be proud to have had a share. When one considers the industries of these United States, whose future is absolutely dependent upon the supply of oil, it must be recognized that if there be a hazard in the future of oil, there is indeed a hazard in our entire industrial, economic and social life. Upon no body of men does there rest a greater responsibility to American industry in general than upon you who compose the American Petroleum Institute. It is to your enterprise, your courage, your pioneer spirit, that the country looks for protection of this basic industry. The country must strengthen your right arm with profits. It must cease to whine at what are reasonable prices. It must realize that unless you can turn back the clock of estimates again as you have done in the past, we shall be begging this industry to find the precious fluid anywhere in the far corners of the world and bring it to us regardless of price.

### General European Conditions

On the whole, industrial and business conditions in Europe improved during 1924, al-

though the crops were not so good and living costs are higher in consequence. The roll of unemployed was reduced slightly in Great Britain, but remains very large, the total on December 1, 1924, being 1,190,200, against 1,285,623 in the corresponding date in 1923. Coal-mining, ship-building and iron and steel are the industries in which the greatest idleness exists. The textile industries have gained, and the feeling in the iron and steel industry was better in the latter part of the year. The production of pig iron in 1924 was about 7,340,000 tons, against 10,260,000 in 1913, but of steel was 8,350,000 tons against 7,669,000 in 1913. The new government, although pledged to refrain from introducing any general scheme of protection, has a plan for "safe-guarding efficient industries," and another plan for promoting trade with the over-sea dominions, which read much like entering wedges for protection and preferential treatment.

### Germany

Conditions in Germany are so far improved as to give assurance that the budget is under control, the currency stabilized and that industry has a firm basis upon which to work. In the first eight months of the fiscal year which began April 1st, 1924, revenues aggregated 4,715,331,865 gold marks; expenditure, 4,534,748,267 gold marks.

The banks have recently issued new balance-sheets in gold marks, in compliance with law, and the conversion shows that all have suffered severe losses from the period currency depreciation. Their capital in so far as it was invested in paper payable in currency went the way of all other capital so invested. They saved what they had been able to invest outside the country or in tangible property. The leading banks show capital in 1913 and 1924 as follows:

|                              | Gold Marks<br>1913 | Gold Marks<br>1924 |
|------------------------------|--------------------|--------------------|
| Deutsche .....               | 250,000,000        | 150,000,000        |
| Disconto .....               | 300,000,000        | 100,000,000        |
| Dresdner .....               | 200,000,000        | 78,000,000         |
| Darmstaedter und Nat'l. .... | 250,000,000        | 60,000,000         |
| Commerz und Privat .....     | 85,000,000         | 42,000,000         |
| Berl. Handels.-Ges. ....     | 110,000,000        | 22,000,000         |
| Mitteldeutsche Credit ....   | 60,000,000         | 22,000,000         |

The tariff question is going to be the center of a hot fight in the Reichstag. The Foreign Trade Association protests against the pre-war duties on food which the Government has proposed to restore, urging that they will increase industrial costs and be "an unbearable burden on export goods."

The recent election has again exposed the weakness of the multi-party system, for no party has a majority in the Reichstag and thus far no effective coalition has been arranged. Such a situation paralyzes the government.

The Agent-General for reparations payments reported the receipt from Germany in

September and October of a total of 169,713,000 gold marks, of which about 69,000,000 was for various items of costs and about 100,000,000 marks applied on reparations account.

The international character of the German reparations loan is shown by the subscriptions accepted at the several financial centers where offerings were made, as follows:

|                 |                  | R. Mks.     |
|-----------------|------------------|-------------|
| New York .....  | \$110,000,000    | 461,780,000 |
| London .....    | £12,000,000      | 245,148,000 |
| Paris .....     | £ 3,000,000      | 61,287,000  |
| Zurich .....    | £ 3,000,000      | 61,287,000  |
| Amsterdam ..... | £ 2,500,000      | 51,072,500  |
| Brussels .....  | £ 1,500,000      | 30,643,500  |
| Stockholm ..... | Kr. 25,200,000   | 28,350,000  |
| Rome .....      | Lire 100,000,000 | 20,429,000  |

Total ..... 959,997,000

The situation was disturbed at the year's end by the decision of the allied governments that Germany was not living up to the treaty provisions as to disarmament and that the British and French troops should not be withdrawn from the Rhine territory at present. This is the first unpleasant clash since the reparations agreement was effected.

#### France

France is industrially prosperous, but financially embarrassed by the enormous task of reconstruction, which she has been obliged to meet by bond issues bearing high rates of interest. Nevertheless, she has converted a heavily adverse trade balance into a favorable one, and steadily increased the revenues and diminished the annual deficit, as appears by the following statement, in which ordinary and extraordinary budgets are merged, figures being in francs:

|                   | Expenditure    | Income         | Deficit        |
|-------------------|----------------|----------------|----------------|
| 1919 .....        | 35,345,000,000 | 11,586,000,000 | 23,759,000,000 |
| 1920 .....        | 39,523,000,000 | 20,130,000,000 | 19,393,000,000 |
| 1921 .....        | 35,603,000,000 | 22,840,000,000 | 12,763,000,000 |
| 1922 .....        | 34,386,000,000 | 22,903,000,000 | 11,483,000,000 |
| 1923 .....        | 32,583,000,000 | 24,200,000,000 | 8,383,000,000  |
| 1924 (est.) ..... | 31,891,000,000 | 27,708,000,000 | 4,183,000,000  |

The deficit for 1924 is being met by an internal loan of 5 per cent, issued at par, redeemable by lot in from five to ten years, at a premium of 50 per cent. The net cash to the Treasury is calculated to be 8.6 per cent interest. This is a high rate, but it is claimed that this is to be the last of the debt-increases, the government being confident of its ability to balance the 1925 budget from revenues. The foregoing figures show past gains, and the country is now in better condition to pay taxes than heretofore. In 1919 the total of revenues from the devastated provinces was 980,000,000 francs, but in 1924 they have been approximately 4,500,000,000.

The debt of France is very heavy, but if the charges are once covered by revenues with a moderate surplus for reducing the principal, refunding operations soon will be possible by which important savings can be made. The internal debt, payable to the French people,

may run a long time, but it is so widely distributed that it need not impoverish the country. The external debts, running to Great Britain and the United States are more difficult to handle. Ambassador Jusserand, who is retiring after long service to his Government at Washington, in a recent public address made the statement that France desired to discharge every dollar of the debt to the United States, but that circumstances compelled her to ask for a moratorium. The circumstances are evident enough, and we do not believe that the people of this country have any disposition to press the debtor for early payments.

#### Belgium

Industrial conditions are quite good in Belgium. The production of the iron and glass industries in 1924 has exceeded that of 1913 and the textile industries also have shown good activity. The budget as made up for 1925 contemplates a deficit of 772,500,000 francs to be made up by a loan. Taxation is now sixteen and one-half times that of 1913, or taking into account the depreciation of currency four times as great. The currency in the past year has been affected by the fluctuations of the French franc, but the financial authorities express confidence that the time is not far off when it will be possible to completely balance the budget, stabilize the currency and put an end to Treasury bond issues.

#### Italy

Industrial conditions are good in Italy, with labor well employed and bolshevism no longer a menace. The poor harvest will force larger importations of wheat than in previous years, and it is notable that the United States holds first rank as the source of Italy's imports. From January 1 to August 31, 1924, the aggregate of imports from this country was 4,299,900,000 lira, against 1,389,200,000 from Great Britain, which ranked next. The budget situation has steadily improved, and for the first quarter of the fiscal year beginning July 1, 1924, showed a surplus of revenue over expenditures. The country is still politically agitated, but there appears to be no probability that radicalism will become threatening.

#### Austria and Hungary

Austria has passed through some difficult situations during the past year, but conditions were more tranquil at the close. The Government is living within the allowance determined by the agreement with the League of Nations, and the national bank is in a strong position.

The League of Nations agreement with Hungary, under which a loan was raised for reorganizing the monetary system, is in successful operation, with Mr. Jeremiah Smith, of the United States as Commissioner in Charge. The revenues pledged to the loan are running largely in excess of the estimate.

# FIRST NATIONAL BANK

## IN MINNEAPOLIS

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FIFTH STREET AND MARQUETTE AVENUE

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GEO. A. LYON, Vice-President  
J. G. BYAM, Vice-President  
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STANLEY H. BEZOIER, Cashier  
JOHN G. MACLEAN, Assistant Cashier  
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A. M. MACHO  
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### MINNEHAHA OFFICE 2626 EAST TWENTY-FIFTH STREET

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Assistant Vice-President

ARVID A. LUND  
Assistant Cashier

### WEST BROADWAY OFFICE WEST BROADWAY AT EMERSON

W. H. DAHN  
Vice-President

C. G. HABERLAND  
Assistant Cashier

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**CAPITAL AND SURPLUS - \$10,500,000**

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### MINNEAPOLIS TRUST COMPANY 115 South Fifth Street

The First National Bank, Minneapolis Trust Company and  
Hennepin County Savings Bank are under one ownership

